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34	The Honorable Henry S. Rowen Asst. Secretary of Defense for Internat'l Security Policy Room 4E838, The Pentagon
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The European Community After 1992



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National Intelligence Estimate

Key Judgments

*These Key Judgments represent the views
of the Director of Central Intelligence
with the advice and assistance of the
US Intelligence Community.*

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NIE 20-89W
December 1989

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The following intelligence organizations participated in the preparation of these Key Judgments:

The Central Intelligence Agency
The Defense Intelligence Agency
The National Security Agency
The Bureau of Intelligence and Research,
Department of State
The Office of Intelligence Support,
Department of the Treasury
The Intelligence Division,
Federal Bureau of Investigation

also participating:

The Deputy Chief of Staff for Intelligence,
Department of the Army
The Director of Naval Intelligence,
Department of the Navy
The Assistant Chief of Staff, Intelligence,
Department of the Air Force
The Director of Intelligence,
Headquarters, Marine Corps

The National Foreign Intelligence Board concurs, except as noted in the text.

The full text of this Estimate is being published separately with regular distribution.

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The European Community After 1992

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- *EC-92 will provide significant political and economic benefits to Europe and reinforce many of the central objectives of postwar US foreign policy. It will stabilize the region politically and provide opportunities for EC-based firms to share in an expanding and more efficient market.*
- *EC-92 will probably provide overall economic benefits to the United States, but the magnitude of these gains is unclear, and some economic sectors are likely to be hurt. US firms that already have production facilities in Europe will benefit. US firms that do not relocate to the integrated market will find access more difficult. Continued US pressure will be needed to help keep the European market open.*
- *EC-92 will also accelerate European claims to a stronger voice in global affairs. In areas of parallel interest, the United States will find a more powerful ally; where US and EC policies diverge, greater EC prominence will complicate if not undermine US initiatives.*
- *US-EC strains—some connected with the EC-92 program—will eventually spill over into the Atlantic Alliance, complicating US efforts to lead NATO on key issues but not necessarily leading to permanent divisions. Common values and mutual interests will continue to exert pressure for concerted action in many areas.*

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Confidential**The European Community and the European Free Trade Association**

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Key Judgments

By further cementing the economic bonds between former adversaries in Europe, EC-92 will contribute to continued peace and political stability, advancing the US objective of attaining a more self-reliant European partner. It will help anchor West Germany in the West, restraining any German tendency toward neutrality and diffusing West German power in Europe.

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By strengthening EC economic capabilities, EC-92 will make Western Europe a more equal partner for the United States, one capable of assuming greater responsibility for promoting common Western goals and objectives. EC-92 will also generate additional resources that could be applied to West European support of political and economic reforms in Eastern Europe, Third World development, and environmental improvements.

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EC-92 will expand opportunities for US firms through greater economies of scale, improved distribution networks, greater harmonization of industrial standards, and a more entrepreneurial business environment. If implemented in an open and market-oriented way, it will also increase investment opportunities and expand the market for goods and services.

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Despite the overall emphasis of the Community on internal liberalization, implementation of EC-92 continues to threaten to limit access of some US firms to the EC market through policies based on reciprocity, local content, rules of origin, and other discriminatory measures. Specific sectors in the United States likely to be adversely affected by EC actions include: semiconductors, food products, broadcasting, and possibly certain financial services. Limited transparency in the formulation of new EC-wide standards will hamper the ability of some US manufacturing firms to compete in Europe.

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Although US efforts have pushed the EC in positive directions, there is still tension within the EC between advocates of more interventionist, protectionist policies and those who believe that Europe has to remain more open to become more competitive. Although the current positive economic climate has dampened protectionist pressures, such pressures are not far from the surface. It will require considerable, consistent effort on the part of the United States to help keep the EC market open to non-EC countries.

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**The European Community and the
United States, 1988**

	Population (million)	GNP (billion US \$)	Per Capita GNP (US \$)
EC	325.1	4,475.1	13,770
Belgium	9.9	115.0	15,700
Denmark	5.1	101.3	19,800
France	56.0	939.2	16,800
Greece	10.0	46.6	4,700
Ireland	3.5	30.6	8,600
Italy	57.3	828.9	14,500
Luxembourg	0.4	4.9	13,400
Netherlands	14.8	223.3	15,200
Portugal	10.5	33.5	3,200
Spain	39.4	288.3	7,400
United Kingdom	57.0	758.4	13,300
West Germany	61.0	1,120.0	18,400
United States	248.0	4,862.0	19,600

EC-92 will increase the scope of Community activity, shifting much economic decision making from the national to the Community level. US ability to influence national policies through bilateral approaches will diminish, as member states increasingly resort to collective decision-making.

EC-92 will further accelerate European hopes for greater prominence in international affairs. A higher EC foreign policy profile will usefully complement US policies in the many cases where our interests and objectives coincide. But, in those areas where US and EC policies diverge, a more activist EC will complicate and occasionally undermine US initiatives.

In the next year or two, EC-92 will have little impact on either the European defense industry or US military exports to member states. However, in the medium term, EC-92 will reinforce the ongoing rationalization of the European defense industry, creating more efficient and formidable competition in the global arms market.

US-EC strains will occasionally spill over into the Atlantic Alliance. By introducing greater equality into the relationship, EC-92 will complicate US ability to guide NATO positions on key issues. European demands for a more equal partnership may quicken the internal debate in NATO over goals and methods of ensuring West European security. But greater independence will not lead to permanent divisions. Common values and parallel interests will continue to generate strong will for concerted action in most areas. [REDACTED]

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Most EC-92 directives will be adopted by 31 December 1992. But the most controversial aspects—notably the removal of fiscal and immigration barriers—will take much longer. [REDACTED]

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Alternative View

The Assistant Secretary of State for Intelligence and Research, Department of State, is convinced that EC-92, considered in its totality, promises clear benefit to US national interests. Its implementation will further European political cohesion, increase intra-European economic cooperation, expand markets, and enhance the potential for greater security self-reliance on the part of US allies. It will not diminish the vital European link to the United States in global partnership. While the United States must continue to carefully monitor the implementation of EC-92 to ensure that US commercial interests are not disadvantaged by protectionist measures, EC-92 has been largely shaped by those states and individuals most committed to free markets and transatlantic harmony. In the Department of State's judgment, the EC is neither indifferent to US interests nor impervious to influence and will seek to accommodate US objections to detrimental aspects of EC-92 via sustained US-EC dialogue and negotiations. [REDACTED]

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